CANADA URBAN INSTITUTE

Canada Hungary Cooperation Program on Fiscal Decentralization and Municipal Development

First Interim Report (October 01, 1998-December 31, 1999)

EXECUTIVE SUMMARY

During the reporting quarter of October 1, 1998 to December 31, 1998 for the Canada-Hungary Co-operation Program (CHCP) for Fiscal Decentralisation and Municipal Development, several key actions were realised which have allowed the project to build considerable momentum after a delayed commencement.

The initial challenge facing the CHCP has been to identify and develop the research topic areas upon which the project's macro- and micro- policy research recommendations and training programs will be built. To gain a comprehensive and up-to-date knowledge of activities and reports completed by other SNDP delivery partners and their future actions, the CUI team (in both Hungary and Canada) conducted a comprehensive review of the background policies and reports available to date under the SNDP. CUI further undertook an inception mission to Budapest in November 1998.

Further detailed research and consideration produced three research topics which the World Bank considers to be both important and integral to the SNDP:

i. Alternative service delivery options for small Hungarian municipalities;
ii. An administrative system for value-based property taxation in Hungary;
iii. Preparing municipalities to achieve an internationally recognised level of creditworthiness.

Three Canadian partners were identified to develop terms of reference, conduct policy research, develop recommendations, and to design and deliver training courses in these three inter-related research areas. Partners include members of the Province of Ontario's Ministry of Finance, the Cities of Ottawa and Stouffville, and the Canadian Bond Rating Service. Accordingly, Hungarian counterparts for research are being identified.

A work program was developed for the creation of national capacity building strategy and programming for municipal finance and management. This was developed in partnership with the Hungarian Society for Urban Planning (MUT) and a proposal for additional funding was submitted to the Fiscal Decentralisation Initiative for Central and Eastern Europe (FDI-CEE).

Over the last quarter, CUI conducted a number of stakeholder forums which assessed and developed techniques for the promotion of Hungarian and international stakeholder co-ordination. CUI participated in all committee forums organised by other partners involved in the SNDP. The CHCP communications strategy is also being developed which will provide the basis for creating a CHCP/SNDP information dissemination system. The primary emphasis of the CHCP/SNDP internet website will be to serve as a mechanism for informing and coordinating SNDP stakeholders about its past, current and future activities.

Most significantly, the CUI inception mission provided the basis for the initial workplan which was subsequently submitted to CIDA. The mission also allowed key project management systems to be re-established and re-configured, meetings with key stakeholders to be conducted, and relations to be established and built between the Canadian and Hungarian CUI office teams.

CANADA-HUNGARY CO-OPERATION PROGRAM ON FISCAL DECENTRALISATION AND MUNICIPAL DEVELOPMENT

First Interim Report
October 1, 1998 to December 31, 1999

1. INTRODUCTION

With funding from the Canadian International Development Agency (CIDA), the Canadian Urban Institute (CUI) launched the Canada-Hungary Cooperation Program on Fiscal Decentralization & Municipal Development (CHCP). The CHCP is being implemented in partnership and coordination with several Hungarian, Canadian, and international organizations including: the Hungarian Society of Urban Planning (MUT), the Metropolitan Research Institute (MRI), Ontario Ministry of Municipal Affairs (MMA), Canadian Bond Rating Service (CBRS), Cities of Ottawa and Stouffville, Ryerson Polytechnical University, Canadian Institute of Planners (CIP), World Bank, Fiscal Decentralisation Initiative For Central And Eastern Europe (FDI-CEE), British Know-How Fund, USAID, International City/County Management Association, and the Urban Institute. This 22-month project is being guided by the following overall goal and objectives:

GOAL: To support key elements of the Government of Hungary's fiscal decentralization reforms by assisting in the development of a policy framework, regulatory environment, and sub-national management capacity programming.

OBJECTIVES:

1. To support the establishment of a strong framework for fiscal federalism and sub-national autonomy.
2. To support the establishment of an open and diversified municipal credit market.
3. To support the establishment of professional municipal management practices and systems that promote municipal credit worthiness and private sector participation in municipal infrastructure and service delivery.

The CHCP officially commenced on October 13, 1998 after some delay. Following an inception mission to Budapest in late-November, 1998, the Initial Workplan was developed. As such, current activities have been focused on executing those key tasks which will initialise a strong project momentum. The results of these activities include:

- Acquisition of a comprehensive and up-to-date knowledge of activities and reports completed by other SNDP delivery partners;
- Selection of research topics which are recognised by the World Bank as integral to the SNDP program;
- Development of a work program for the creation of a national capacity building strategy and programming for municipal finance and management;
- Identification of partnerships with Canadian experts to conduct policy research, develop

recommendations, and design and deliver training courses;

Given the breadth and complexity of the SNDP program, there are a number of future challenges which face the CHCP. They have been identified, considered and include:

- Late commencement of the CHCP in the SNDP program, relative to other SNDP delivery partners;
- Existing bias toward the experiences and skills of countries who are European Union (EU) members;
- Lack of institutional capacity amongst diverse Hungarian municipalities to deal with municipal and urban management problems;
- Potential difficulty in gaining support and cooperation from the National Government due to unpredictable decision-making and high levels of bureaucracy;

These challenges have been considered and in response solutions have been developed.

2. PROGRESS TOWARD MEETING OUTCOMES

Outcome Statement One: Proposal Development of National Policy and Programming for Fiscal Decentralisation

- *Studies and policy notes will be submitted to the Government of Hungary on fiscal federalism, municipal credit market development and municipal management practices.*
- *A comprehensive understanding of municipal management and credit worthiness issues and needs will be acquired by Hungarian municipalities.*

Outcome Summary

Following a significant review of background documents and meetings, the CHCP project team identified three research topics for macro- and micro- policy research and programming and began developing terms of reference for them. They are being developed with key Canadian professionals who were identified to undertake the research activities jointly with Hungarian researchers.

Indicators of Progress

In this quarter, efforts focused on developing macro- and micro- policy research topics which could provide the most value-added to the SNDP program. Accordingly, an emphasis was placed on identifying and meeting with all key Hungarian, Canadian, World Bank and other stakeholders to define specifics for cooperation. The CUI inception mission to Budapest in mid-November 1998 provided an opportunity to conduct information-gathering meetings, to exchange knowledge and to develop strategic directions for the program.

After several follow-up meetings in December and a comprehensive review of background documents, three focus areas were identified and developed for macro- and micro- policy research. The macro-

policy research will critique World Bank recommendations (in these areas), while the micro-policy research will focus of developing of CHCP recommendations and training programs for these areas. The topics include:

i. Alternative service delivery options for small Hungarian municipalities. Research will focus on determining what options small- to mid-size Hungarian municipalities have for delivering public services that require significant resources, yet are required in order to meet European Union (EU) accession standards. Emphasis will be on underutilised alternative approaches, such as facilitating a more active voluntary role by inter-municipal associations and engaging the private sector (where appropriate) for making the development and delivery of these services feasible.

ii. An administrative system for value-based property taxation in Hungary. Research will focus on analysing the status quo for administering property taxation in municipalities and determine what administrative aspects in particular need to developed to build an effective, functional system that fosters a stable local revenue. Emphasis will be on improving administrative capacity to facilitate reliable assessment, collection and enforcement.

iii. Preparing municipalities to achieve a internationally recognised level of creditworthiness. Research will focus on developing a methodology for assessing a Hungarian municipality's level of preparedness for acquiring a favourable credit-rating by an international credit-rating agency. Emphasis will be on providing municipalities with the information and reporting standards that allow them to identify their own strengths and deficiencies so that these may be improved prior to the rating process.

Canadian experts who will be undertaking the research have been identified and meetings conducted by CUI staff. Currently, Terms of Reference are being developed for each research area. Further, these Canadian professionals will act as 'mentors' - guiding and advising their Hungarian counterparts on the research activities. Partnerships are currently being developed with the following professionals:

- Almos Tassonyi, Senior Economist, Taxation Policy Branch, Ontario Ministry of Finance.
- Nick Kristoffy, Treasurer, City of Stouffville, Ontario; former Treasurer for the City of Toronto.
- Eric McSweeney, Director of Alternative Service Delivery, City of Ottawa.
- Maria Rabiasz, Vice-President Corporate Development, Canadian Bond Rating Service.

Challenges and Measures Taken

A first challenge arises out of the delay in the CHCP's commencement: CUI may be considered by some a "late-comer" to the SNDP. To ensure optimal value-added in the CHCP contribution to SNDP macro-policy research, much care has been given to consult with the various SNDP stakeholders on potential areas of research. CUI has recognised this challenge as an opportunity to take advantage of and to hone in on those key areas which have been overlooked by other SNDP delivery partners, yet which have recently emerged as integral subject areas for the SNDP.

A second concern is a potential bias of the Hungarian Government to emphasize the experiences and

skills of EU member countries, as Hungary ascends into the EU. Nevertheless, the experiences of the Canadian governmental system are both significant and broad. Canadian experiences will be identified and tailored to optimize their relevance to Hungarian municipalities. In those research areas where it is especially relevant, CUI is establishing partnerships with professionals who have relevant experience in assessing and meeting the needs of both upper- and lower- tier governments, such as the Provincial Government of Ontario (for property tax administration) and the Canadian Bond Rating Service (for preparing municipalities' for creditworthiness).

Outcome Statement Two: Support City Management Assistance Programming and Implementation Promoting Municipal Credit Worthiness

- *Consensus will be built for a national strategy for capacity building issues and credit worthiness needs.*
- *Municipal training programs will be developed and integrated into the curriculum of Hungarian educational institutions.*

Outcome Summary

A workplan and proposal was completed for the development of national capacity building programming for improving municipal finance and management. This will provide the basis for training courses which will educate senior figures in Hungarian municipalities in assessing deficiencies in their municipal management and financial capacity.

Indicators of Progress

Over the last quarter, a workplan was developed to facilitate the creation of a proposal for national capacity building programming for municipal finance and management. Created in partnership with MUT, this work plan includes: preparation of background studies, examination of various municipal capacity building approaches in other countries, a national workshop and a final report on municipal capacity building (MCB) priorities and a program proposal. The plan also provides the basis for a proposal submitted to the FDI-CEE in late-December 1998 which could provide additional financial resources to complement this activity.

The content, analysis, and goals associated with these MCB activities (to determine and develop recommendations for MCB issues and needs) will work hand-in-hand with the goals of the macro- and micro- policy research activities (to develop proposals for national policy and programming related to fiscal decentralization). The results of these two activities will be integrated into the training courses designed to support the implementation of the city management assistance programming. Therefore, as a measure to optimize continuity and mimimize duplication between these overlapping activities, the terms of reference that CUI is developing with each of the professionals participating in Activity 1 will include input into the development and delivery of the training courses.

Challenges and Measures Taken

With over 3200 Hungarian municipalities (represented by 15 associations), there will be discrepancies

amongst municipalities regarding their specific needs and issues. Moreover, unpredictable political influences affecting levels of co-operation and a lack of institutional capacity, or "know-how", within and among municipalities (which are often in the greatest need for improved management and finances) all pose significant challenges to developing a national strategy that will gain consensus amongst municipalities. CUI will seek to maximise the interwoven nature of its activities and the three focus areas to develop a strategy and training courses that are holistic and relevant to the context of most Hungarian municipalities.

Outcome Statement Three: Promotion of Stakeholder Co-ordination and Private Sector Participation in Hungarian Municipal Development

- *There will be an increase in co-ordinated action among Hungarian and international stakeholders involved in sub-national development.*
- *An interactive website will be created to increase access to information and educational resources related to sub-national development*
- *The Canadian private sector will be involved in Hungary's sub-national development.*

Outcome Summary

CUI has conducted a number of stakeholder forums which assessed and developed the techniques required to promote Hungarian and international stakeholder co-ordination. Further, the CHCP communications strategy is being developed and will provide the basis for creating a CHCP / SNDP information dissemination system. This includes a concept plan and implementation strategy for the CHCP / SNDP Website. CUI is developing a project partnership with one of only eight internationally recognized bonding rating agencies in the world - the Canadian Bond Rating Service (CBRS).

Indicators of Progress

Over this quarter the CUI participated in all committee forums organised by other partners involved in the SNDP. Further, the CUI has organised a meeting on January 18th, 1999 with the President of the Republic of Hungary and the top representatives of other SNDP stakeholders including the World Bank, the Hungarian Ministry of Finance and the Canadian Embassy. The purpose of this meeting is to brief the President on the CHCP program. At the same time Tibor Frank, CUI Director, will receive the 'Gold Medal of the President of the Republic' of Hungary for his outstanding contribution to strengthening Canadian-Hungarian relations.

The CHCP is continuing development of an information management and dissemination strategy. A key aspect will be a communications strategy to publicize the project's achievements and to acknowledge CIDA's contributions. Inter-active internet-based tools, including an electronic-based newsletter, will be the prime communication method for targeting municipal-related private, public and non-governmental organizations and professionals in Canada, Hungary and elsewhere in the world.

The website is also being developed as a mechanism to promote co-ordination amongst stakeholders. The website concept plan targets all SNDP stakeholders and participants providing updated information on all SNDP policy notes and papers, links to delivery partners, up-coming events, as well

as an SNDP newsletter. It is anticipated that the communication strategy and the program's internet-site will be developed by early March 1999. Efforts are being made to ultimately link the CHCP/SNDP website with the FDI-CEE's LOGIN project.

In terms of private sector involvement, CUI has also been negotiating terms for the participation of CBRS in both policy research and programming recommendations, as well as, to assist in the development of a component of the training courses. CHCP project is expected to provide a platform for continued services within Hungary beyond the project's duration.

Challenges and Measures Taken

In its past, CUI has engaged the municipal government as the main participant and stakeholder of its activities. By contrast, the policy recommendations of the CHCP/SNDP are directed toward the national government. There is a significant challenge to involve such a high level institution which can be susceptible to unpredictable decision-making processes, as well as, a labyrinth-like bureaucratic structure. In anticipation of this challenge, CUI has engaged top members of the Hungarian government (e.g., the Hungarian Minister of Finance) in the CHCP stakeholder forums on an on-going basis to ensure project support.

A second concern involves a lack in co-ordinated information flow between partners and participants. Dr. Frank has a long-standing relationship with many of the partners and participants of the CHCP, moreover, CUI is participating in all stakeholder meetings. These will mitigate any co-ordination difficulties potentially impeding the progress of the CHCP. Furthermore, it is one of the CHCP's main objectives within the framework of the SNDP to improve stakeholder co-ordination and inform the Canadian private sector about the activities and opportunities associated with the CHCP/SNDP programs.

Outcome Statement Four: Re-establishment of Program Management Systems and Integration with the Region's International Development Networks

- *A CHCP/SNDP committee system will be established and integrated into the region's international development networks.*
- *CHCP program management and performance measurement system will be established.*

Outcome Summary

CUI took part in all SNDP stakeholder meetings and the region's international development-related meetings which will help to optimize resources, ensure co-ordination and avoid duplication. Further, the CHCP inception mission to Budapest re-established key project management systems, including identifying and meeting with key stakeholders for a Hungarian advisory committee, the development of the CHCP initial workplan, and the building of Canadian and Hungarian CUI office team relations and management systems.

Indicators of Progress

Over the quarter, CUI conducted meetings with key regional international development organizations, such as the World Bank's MFI and the FDI-CEE. These meetings better position the CUI to both disseminate its experiences and to channel other international experiences and resources into CHCP/SNDP sponsored activities. For example, our joint-proposal with MUT (described in Outcome Statement #2) should help to channel the resources of the FDI-CEE to further strengthen our activities.

During the November CUI inception mission, meetings were also conducted with the Ministry of Finance, and mayors and top municipal staff of various Budapest districts and Hungarian municipalities. These meetings concentrated on re-/establishing relationships and introducing the expectations of the new CHCP/SNDP project. Moreover, they helped to identify possible members for a Hungarian project advisory committee. This committee is currently being developed. Members for a Canadian advisory committee have been identified and will include those professionals who CUI is expected to secure research partnerships with.

Despite the temporal gap between the previous CHMCP and the CHCP, the operating staff maintained significant momentum which aided the acceleration of the project's successes to date. In both Hungary and Canada, CHCP program management systems, although already established, were re-configured to meet demands of the new CHCP project.

Another major accomplishment of this first quarter was the development of the Initial Annual Workplan for the CHCP, which was submitted to CIDA in late December 1998. The workplan was based on knowledge acquired through background research and meetings by both CUI offices, human and financial resources, time availability, the present needs of Hungarian governments, and the requirements SNDP and CIDA.

Challenges and Measures Taken

There are no perceived concerns with respect to fulfilling the objectives of these activities further than maintaining good communication links with stakeholders and amongst advisory committee members.

Outcome Statement Five: Increase in the Capacity of Sub-national Governments to Successfully Undertake Municipal Investment Projects

There will be an increased capacity of sub-national governments to plan, finance, and manage municipal investment projects, especially with the participation of the private sector.

Outcome Summary

As discussed in "Outcome Statement Two", a workplan for national capacity building programming for improving municipal finance and management was developed. This provides the starting point for a CHCP strategy on how Hungarian local governments can assess and address their capacity deficiencies in order to undertake major municipal investments.

Indicators of Progress
The CUI has selected three policy research and training program areas which the World Bank/SNDP confirms are essential to the success of all municipalities who maintain a will to achieve a sustained, sub-national autonomy. As the research activities of the CHCP reach their completion and their results are disseminated through training courses, lower-tiered governments in Hungary will become better equipped to understand and to fulfil tasks required to meet their mandates and responsibilities pertaining to municipal investment projects.

Challenges and Measures Taken
As stated in 'Challenges and Measures Taken' under 'Outcome Three'.

3. FINANCIAL VARIANCES

Due to the delayed commencement of the project, efforts had to be focused on bringing the project up to date as well as developing terms of reference for the research projects. Thus, there was a higher than expected level of effort for the Canadian Director and Canadian researcher.

The variance which occurred in "Hungarian Travel Expenses/ Transportation" is the result of a decision to contribute towards the operation of a vehicle that has been purchased by the Field Manager and will be used for project purposes. According to our analysis, this is the most cost-effective way to accommodate the transportation needs of the project. (This is similar to previous project arrangement in Hungary.)

4. LOOKING INTO THE FUTURE

In the first quarter of the CHCP, all expectations were met and project momentum gained. With the completion of the first CUI team mission in November 1998, CUI created a workplan which was both ambitious, yet critically reviewed the context and the progress of the SNDP to date. This quarter has shown that the CUI both recognizes potential areas of concern and has thus far been successful in developing solutions for them and making positive strides toward fulfilling project objectives.

The breadth and complexity of the SNDP program, however, creates a number of future challenges which face the CHCP. In the next quarter of the project, it will be critical to: (1) maintain the strategies and levels of effort required to mitigate potential problems, and (2) to continue building the momentum of the project. As such, CUI will turn its focus to the following set of activities:

- Launch research for development of macro-policy recommendations and preliminary information for training program development:
  - Complete Terms of Reference and workplans for conducting micro-policy research in partnership with professional experts;
  - Contract selected Canadian and Hungarian professionals to conduct field research and prepare policy proposals, including the city management and creditworthiness assessments in Hungarian municipality(s).
  - Engage Canadian finance specialists to assist the development of macro-policy researches and

proposals.

- Launch the formulation of national capacity building strategy for municipal finance and management in Hungary:
  - Conduct background studies related to MCB needs and priorities;
  - Examine the Baltic states and other countries' experience in MCB at the national level.
  - Conduct a national workshop with a range of stakeholders to analyse and build consensus on CHCP/SNDP capacity building priorities and programming.

- Continue the development of a program information management and dissemination systems and implement publicly accessible Internet Website:
  - Publish first CHCP/SNDP newsletter for stakeholders and partners, via the Website;
  - Build internet site that meets the objectives of the CHCP/SNDP and integrates into FDI-CEE's LOGIN project.
  - Conduct series of stakeholder forums, including meeting with the President of Hungary.

- Formulate and submit proposals to funding agencies, in partnership with Hungarian and Canadian participants, to obtain to generate additional resources for CHCP activities.

- Participate World Bank, FDI-CEE and other committees, workshops.

- Conduct research and develop work program for CHCP gender strategy.

- Collect data to develop CHCP performance measurement systems.

- Begin preparations for Study Tour (May or June 1999).

- Prepare and submit interim financial and narrative reports to CIDA.

5. APPENDICES